

**ISABELLA COUNTY TRANSPORTATION COMMISSION**

37-7515

**Mt. Pleasant, Michigan**

**Annual Financial Statements**

**Auditors' Report**

**and**

**Single Audit Report**

**September 30, 2004 and 2003**

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

37-7515

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Isabella County Transportation Commission	County Isabella
Audit Date September 30, 2004	Opinion Date November 30, 2004	Date Accountant Report Submitted to State: January 27, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, PC, CPAs			
Street Address 7810 North Alger Road	City Alma	State MI	ZIP 48801
Accountant Signature <i>James Rivette</i>			

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**Isabella County Transportation Commission**

**Mt. Pleasant, Michigan**

**Annual Financial Statements**

**Auditors' Report**

**and**

**Single Audit Report**

**September 30, 2004 and 2003**

**BOARD OF DIRECTORS**

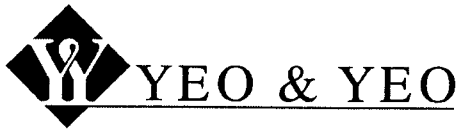
MILAN ROBISON  
GARY HOUSE  
PAT LACHANCE

CHAIR  
VICE CHAIR  
COMMISSIONER

**ADMINISTRATION**

JANICE BAUMAN  
RICK ATKIN  
PATTI CASEY

GENERAL MANAGER  
ASSISTANT GENERAL MANAGER  
ACCOUNTANT



7810 N. Alger Rd.  
Alma, MI 48801  
Phone (989) 463-6108  
Fax (989) 463-8560

## Independent Auditors' Report

Board of Directors  
Isabella County Transportation Commission  
Mt. Pleasant, Michigan

We have audited the accompanying basic financial statements of the Isabella County Transportation Commission as of and for the years ended September 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Isabella County Transportation Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Isabella County Transportation Commission at September 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2004, on our consideration of Isabella County Transportation Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other supplemental information and Schedule of Federal Awards listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Isabella County Transportation Commission. Except for the schedules labeled "unaudited", such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material aspects in relation to the basic financial statements taken as a whole. The Schedules of Mileage Data and Vehicle Hours and Passengers are unaudited and we express no opinion on them.

*Yeo & Yeo, P.C.*

Alma, Michigan  
November 30, 2004

## Management's Discussion and Analysis

### Using this Audit Report

This annual audit report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of Isabella County Transportation Commission for the fiscal year October 1, 2003 to September 30, 2004.

### Isabella County Transportation Commission as a Whole

Isabella County Transportation Commission's combined net assets increased 15% from a year ago - increasing from \$4,421,754 to \$5,068,691. This is mainly due in part to sale of land and property in fiscal year 2004. In a condensed format, the table below shows a comparison of the net assets as of 9/30/04 to the prior year 9/30/03.

	2004	2003
Current Assets	\$ 1,258,909	\$ 706,484
Noncurrent Assets	4,863,941	4,859,096
Total Assets	6,122,850	5,565,580
Current Liabilities	350,672	354,697
Long-Term Liabilities	703,487	789,129
Total Liabilities	1,054,159	1,143,826
Net Assets	\$ 5,068,691	\$ 4,421,754



## Management's Discussion and Analysis

### Isabella County Transportation Commission Activities

Isabella County Transportation Commission's operating revenues decreased approximately \$67,000, primarily due to a decrease in ridership and contract activities. Non-operating revenue increased by approximately \$1,050,000 due to the sale of land and old transit facility in fiscal year 2004. Operating expenses decreased by \$165,000 due to close budget monitoring during the fiscal year. Depreciation expense increased approximately \$99,000 from 2003. As a result, a net increase after depreciation occurred of \$724,274. In a condensed format, the table shows a comparison of the revenues and expenses for 2004 and 2003.

	2004	2003
Operating Revenues	\$ 455,728	\$ 522,819
Operating Expenses	2,630,833	2,796,316
Depreciation	556,257	457,374
Nonoperating Revenues	3,411,669	2,359,614
Nonoperating Expenses	33,370	36,907
Net (loss)	<u>\$ 646,937</u>	<u>\$ (408,164)</u>

## **Management's Discussion and Analysis**

### **Capital Assets**

At the end of fiscal year 2004 Isabella County Transportation Commission had approximately \$7,120,000 in Capital Assets. The major addition for the year was six new buses that cost \$1,050,198. The Commission's major disposal was old buses. The total disposition's for the year was approximately \$627,000, which includes the old buses and various office and garage equipment.

### **Long-term Debt**

At September 30, 2004, Isabella County Transportation Commission had a long-term debt balance of \$789,129. This loan has an interest rate of 4% and is payable in annual installments with the final payment due on April 18, 2012.

### **Economic Factors**

Isabella County Transportation Commission's budget for fy-2005 calls for a 29% increase in property tax revenues. We anticipate overall expenses to increase approximately 10%. Isabella County Transportation Commission will continue to monitor the budget to keep these expenses as low as possible.

### **Contacting Isabella County Transportation Commission**

This audit report is intended to provide our citizens, taxpayers, and customers with the general overview of Isabella County Transportation Commission's finances and to show Isabella County Transportation Commission's accountability for the money that it receives. If you have any questions about this audit, please contact Isabella County Transportation Commission.

# Isabella County Transportation Commission

## Statement of Net Assets September 30, 2004 and 2003

	September 30,	
	2004	2003
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,130,898	\$ 570,093
Land contracts receivable - current portion	3,540	20,810
Accounts receivable	17,610	27,597
Due from employees	180	3,093
Inventories	76,200	63,527
Prepaid expenses	30,481	21,364
Total current assets	<u>1,258,909</u>	<u>706,484</u>
Noncurrent Assets		
Capital assets		
Land	54,004	54,004
Building and improvements	2,784,633	2,784,633
Buses and vehicles	3,364,800	2,926,571
Bus equipment	200,706	200,706
Office and garage equipment	700,390	576,043
Office furniture	14,072	14,072
Less: accumulated depreciation	<u>(2,269,768)</u>	<u>(2,340,788)</u>
Net capital assets	<u>4,848,837</u>	<u>4,215,241</u>
Land contract receivable	<u>15,104</u>	<u>643,855</u>
Total noncurrent assets	<u>4,863,941</u>	<u>4,859,096</u>
Total assets	<u>6,122,850</u>	<u>5,565,580</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	79,185	128,600
Accrued payroll and related liabilities	80,854	127,477
Accrued interest	14,269	15,758
Due to Isabella County	-	295
Due to State Government	77,632	-
Deferred revenue	13,090	219
Current portion of long term liabilities	<u>85,642</u>	<u>82,348</u>
Total current liabilities	<u>350,672</u>	<u>354,697</u>
Long-term liabilities		
Loan payable	<u>703,487</u>	<u>789,129</u>
Total liabilities	<u>1,054,159</u>	<u>1,143,826</u>
Net assets		
Invested in capital assets - net of related debt	4,059,708	3,343,764
Unrestricted	<u>1,008,983</u>	<u>1,077,990</u>
Total net assets	<u>\$ 5,068,691</u>	<u>\$ 4,421,754</u>

See Accompanying Notes to Financial Statements

**Isabella County Transportation Commission**  
**Statement of Activities**  
**Years Ended September 30, 2004 and 2003**

	Years Ended September 30,	
	2004	2003
Operating revenues	\$ 511,505	\$ 557,515
Revenue related to CDL/GDL fees	(55,777)	(34,696)
Operating expenses before depreciation	<u>2,630,833</u>	<u>2,796,316</u>
Operating loss before depreciation	(2,175,105)	(2,273,497)
Depreciation	<u>556,257</u>	<u>457,374</u>
Operating loss after depreciation	(2,731,362)	(2,730,871)
Nonoperating revenues		
Local operating assistance	716,278	679,466
State of Michigan operating assistance	1,184,106	1,233,104
Federal operating assistance	280,566	323,943
Interest income	<u>40,623</u>	<u>44,757</u>
Total nonoperating revenues	2,221,573	2,281,270
Nonoperating expenses		
Interest expense	<u>33,370</u>	<u>36,907</u>
Loss before capital contribution	(543,159)	(486,508)
Capital contribution		
Federal	<u>1,190,096</u>	<u>78,344</u>
Income (loss) after capital contribution	646,937	(408,164)
Net assets, beginning of year	<u>4,421,754</u>	<u>4,829,918</u>
Net assets, end of year	<u>\$ 5,068,691</u>	<u>\$ 4,421,754</u>

See Accompanying Notes to Financial Statements

# Isabella County Transportation Commission

## Statement of Cash Flows

Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Receipts from customers	\$ 457,820	\$ 728,529
Payments to suppliers	(511,533)	(598,371)
Payments to employees	(1,281,146)	(1,347,280)
Other receipts (payments)	(210,434)	(790,307)
Net cash used by operating activities	(1,545,293)	(2,007,429)
Cash flows from noncapital and financing activities		
Operating subsidies	2,180,950	2,236,513
Net cash provided by noncapital and financing activities	2,180,950	2,236,513
Cash flows from capital and related financing activities		
Capital contributions	1,190,096	78,344
Purchase of capital assets	(1,189,853)	(84,299)
Principal paid on capital debt	(82,348)	(79,181)
Interest paid on capital debt	(33,370)	(36,907)
Other receipts (payments)	-	2,757
Net cash used by capital and related financing activities	(115,475)	(119,286)
Cash flows from investing activities		
Interest	40,623	44,757
Net cash provided by investing activities	40,623	44,757
Net increase in cash and cash equivalents	560,805	154,555
Cash and cash equivalents - beginning of year	570,093	415,538
Cash and cash equivalents - end of year	<u>\$ 1,130,898</u>	<u>\$ 570,093</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (2,731,362)	(2,730,871)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	556,257	457,374
Changes in assets and liabilities:		
Receivables, net	658,921	230,182
Inventories	(12,673)	(781)
Prepays	(9,117)	1,964
Other	-	(2,757)
Accounts and other payables	27,922	31,476
Accrued expenses	(48,112)	8,621
Deferred revenue	12,871	(2,637)
Net cash used by operating activities	<u>\$ (1,545,293)</u>	<u>\$ (2,007,429)</u>

See Accompanying Notes to Financial Statements

**Isabella County Transportation Commission**  
**Notes to Financial Statements**  
**Year Ended September 30, 2004**

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**NOTE 1 - REPORTING ENTITY**

The Isabella County Transportation Commission, a component unit of Isabella County, is a county-wide transportation system created by an inter-local agreement dated May 6, 1977 between the County of Isabella and the City of Mt. Pleasant. Pursuant to the inter-local agreement, the Isabella County Transportation Commission is a separate legal and administrative agency organized pursuant to the Urban Corporation Act, P.A. No. 7 of 1967.

**NOTE 2 - DESCRIPTION OF FUND**

The Commission is reported as an enterprise fund in the financial statements. An enterprise fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Isabella County Transportation Commission conform with accounting principles generally accepted in the United States of America. The following is a summary of the more significant policies.

***Basis of Accounting***

The financial statements of the Commission are reflected on the accrual basis of accounting; revenues are recorded when earned and expenses are recorded as incurred without regard to the timing of related cash flows.

***Revenue Recognition***

Operating revenues of the Commission consist primarily of farebox revenues and contracts. The Commission's nonoperating revenues consist primarily of property taxes, state operating assistance, federal operating assistance and interest income.

The property tax levy runs from January 1 to December 31. Property taxes become a lien on the first day of the levy year and are due on or before February 14. Collections are forwarded to the Commission as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by Isabella County and remitted to the Commission.

***Cash and Cash Equivalents***

At September 30, 2004, cash and cash equivalents consisted of checking and savings accounts.

**Isabella County Transportation Commission**  
**Notes to Financial Statements**  
**Year Ended September 30, 2004**

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***Inventories***

The inventories for operations, maintenance, and administration are recorded at the lower of first-in, first-out cost or market.

***Prepaid Expenses***

Prepaid expenses consist of various insurance premiums paid in advance.

***Capital Assets***

Capital assets are stated at cost. Expenditures, which materially extend the useful life of existing properties, are capitalized. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Type of asset</u>	<u>Useful life in years</u>
Building	40
Revenue vehicles:	
Buses	12
Fareboxes	8
Radios	8
Bus shelters	5
Maintenance equipment	5
Office equipment	5

The Commission does not have any infrastructure assets. When assets are withdrawn from mass transportation service, the grantee (the Commission) must remit to the grantor, the grantor's pro-rata share of the fair market value as of the date the asset was withdrawn from service.

***Employee Vacation and Sick Leave***

The liability for unused sick and vacation days represents compensated absence time earned and vested by employees.

***Deferred Revenue***

Recognition of deferred revenue relates to payments received by the Commission from State and Federal sources in advance of eligible expenses being incurred.

***Long-term Obligations***

Long-term debt obligations are reported as liabilities in the statement of net assets.

**Isabella County Transportation Commission**  
**Notes to Financial Statements**  
**Year Ended September 30, 2004**

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***Unrestricted Net Assets***

Unrestricted net assets represent accumulated local nonoperating revenues that have exceeded the amount required to cover the local match of operating expenses.

***Financial Statement Format***

The format of the accompanying financial statements and schedules are presented in accordance with the Audit Guide for Transportation Authorities provided by the Michigan Department of Transportation. This format does not vary significantly from the financial statement format prescribed under governmental accounting principles generally accepted in the United States of America.

***Reclassifications***

Certain amounts presented in prior year data have been reclassified in order to be consistent with the current year's presentation.

***Governmental Accounting Standards Board Statement 20***

In accordance with GASB Statement 20, the Commission has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its financial statements.

***Use of estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimated.

**NOTE 4 - DEPOSITS**

Michigan Compiled Laws, Section 129.91, authorizes the Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers acceptance of U.S. Banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.



**Isabella County Transportation Commission**  
**Notes to Financial Statements**  
**Year Ended September 30, 2004**

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The carrying amount of deposits, is \$ 1,130,898, which includes petty cash of \$ 250. The following bank balances, are without considering deposits in transit or uncleared checks, are classified as to risk as follows:

Insured - checking and savings	\$ 165,452
Uninsured - uncollateralized	992,121
Total	<u>\$ 1,157,573</u>

**NOTE 5 – CAPITAL ASSETS**

The following table presents the changes in the various fixed asset class categories for the year ended September 30, 2004 as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Assets not being depreciated				
Land	\$ 54,004	\$ -	\$ -	\$ 54,004
Other capital assets				
Buildings and improvements	2,784,633	-	-	2,784,633
Buses	2,926,571	1,058,238	620,009	3,364,800
Bus equipment	200,706	-	-	200,706
Office and garage quipment	576,043	131,615	7,268	700,390
Office furniture	14,072	-	-	14,072
Subtotal	<u>6,556,029</u>	<u>1,189,853</u>	<u>627,277</u>	<u>7,118,605</u>
Accumulated depreciation				
Buildings and improvements	356,816	139,231	-	496,047
Buses	1,715,455	276,906	620,009	1,372,352
Bus equipment	116,517	26,585	-	143,102
Office and garage quipment	148,834	112,128	7,268	253,694
Office furniture	3,166	1,407	-	4,573
Subtotal	<u>2,340,788</u>	<u>556,257</u>	<u>627,277</u>	<u>2,269,768</u>
Net capital assets	<u>\$ 4,215,241</u>	<u>\$ 633,596</u>	<u>\$ -</u>	<u>\$ 4,848,837</u>

Depreciation expense for the fiscal years ending September 30, 2004 and 2003 was \$ 556,257 and \$ 457,374 respectively.

**Isabella County Transportation Commission**  
**Notes to Financial Statements**  
**Year Ended September 30, 2004**

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**NOTE 6 – LONG-TERM LIABILITIES**

Long-term liability activity for the year ended September 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Within One Year</u>
Loan payable	\$ 871,477	\$ -	\$ 82,348	\$ 789,129	\$ 85,642

The loan payable is secured by the building. The loan has an interest rate of 4% and is payable in annual installments with the final payment due April 18, 2012.

Principal payments on the long term debt are payable annually on April 18. Maturities on the loan for the next five years and thereafter are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	85,642	31,565	117,207
2006	89,068	28,139	117,207
2007	92,630	24,577	117,207
2008	96,335	20,872	117,207
2009	100,189	17,018	117,207
2010-2012	<u>325,265</u>	<u>26,362</u>	<u>351,627</u>
	<u>\$ 789,129</u>	<u>\$ 148,533</u>	<u>\$ 937,662</u>

**NOTE 7 - CAPITAL GRANTS**

The Commission has contracted with federal and state agencies for grant funds to purchase equipment for the Commission. At September 30, 2004, the Commission had remaining available to use unearned capital grant amounts aggregating \$ 354,741.

**NOTE 8 - COST ALLOCATION PLANS**

The Commission utilizes a cost allocation plan developed by management and approved by the Bus Transit Division of Michigan. This Plan has been adhered to in the preparation of the financial statements.

**Isabella County Transportation Commission**  
**Notes to Financial Statements**  
**Year Ended September 30, 2004**

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**NOTE 9 - RETIREMENT PLANS**

The Commission sponsors an IRC section 457 Plan for its employees.

***457 Plan***

The plan allows for a maximum employee contribution, as set by federal law annually, and a discretionary employer contribution that cannot exceed 7% of the salaried employees annual compensation. There is a \$750 maximum employer match for hourly employees.

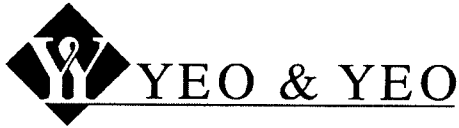
**NOTE 10 - RISK MANAGEMENT**

The Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) as well as medical benefits to employees. The Commission has purchased commercial insurance for all of these risks, except for medical benefits for employees.

The Commission participates in the Isabella County Insurance Pool for medical benefits for employees. Set premiums are established annually based on an overall pool experience for the previous year.

**NOTE 11 - CONTINGENCIES**

The Commission has received federal and state grants for specific purposes, which are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.



7810 N. Alger Rd.  
Alma, MI 48801  
Phone (989) 463-6108  
Fax (989) 463-8560

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors  
Isabella County Transportation Commission  
Mt. Pleasant, Michigan

We have audited the financial statements of Isabella County Transportation Commission as of and for the year ended September 30, 2004, and have issued our report thereon dated November 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Isabella County Transportation Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Isabella County Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Alma, Michigan  
November 30, 2004

**Report on Compliance with  
Requirements Applicable to Each Major Program  
and Internal Control over Compliance in  
Accordance with OMB Circular A-133**

To the Board of Directors  
Isabella County Transportation Commission  
Mt. Pleasant, Michigan

**Compliance**

We have audited the compliance of the Isabella County Transportation Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The Isabella County Transportation Commissions' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Isabella County Transportation Commissions' management. Our responsibility is to express an opinion on the Isabella County Transportations Commissions' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Isabella County Transportation Commissions' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Isabella County Transportation Commissions' compliance with those requirements.

In our opinion, the Isabella County Transportation Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

## **Internal Control Over Compliance**

The management of the Isabella County Transportation Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Isabella County Transportation Commissions' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the Isabella County Transportation Commission as of and for the year ended September 30, 2004, and have issued our report thereon dated November 30, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements that collectively comprise Isabella County Transportation Commission basic financial statements. The included schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Alma, Michigan  
November 30, 2004

**Isabella County Transportation Commission**  
**Schedule of Financial Awards - Federal and State**  
**Year Ended September 30, 2004**

State and Federal Transit Capital Improvement Grants

<u>Federal/Pass Through Grantor Program Title</u>	<u>Contract or Project Number</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Amounts Expended for the Year Ended 9/30/04</u>	<u>Cumulative Amounts as of 9/30/04</u>	<u>Unearned Amounts Remaining</u>
<b>CAPITAL ASSISTANCE</b>						
U.S. Department of transportation Passed through the Michigan Department of Transportation						
Sec. 5309 - Bus/Facility Purchases	2000-0481	20.500	\$ 1,298,510	\$ 513,187	\$ 1,295,931	\$ 2,579
Sec. 5309 - Bus/Trolley	2001-0543	20.500	1,760,105	543,538	1,753,111	6,994
Sec. 5309 - Capital	2002-0053	20.500	488,563	134,143	169,143	319,420
Sec. 5311 - Bus/Trolley Purchases	2000-0406	20.509	65,280	-	54,337	10,943
Sec. 5311 - Computer System Purchase	2000-0406	20.509	100,000	-	98,251	1,749
Sec. 5311 - Capital	2001-0917	20.509	115,000	-	101,944	13,056
Total passed through the Michigan Department of Transportation			<u>\$ 3,827,458</u>	<u>\$ 1,190,868</u>	<u>\$ 3,472,717</u>	<u>\$ 354,741</u>
<b>OPERATION ASSISTANCE</b>						
U.S. Department of Transportation Passed through the Michigan Department of Transportation						
Section 5311 Operating Assistance RTAP	2002-0053/Z5	20.509	N/A	\$ 276,778	\$ 276,778	\$ -
		20.509	N/A	3,788	3,788	-
Total Passed through the Michigan Department of Transportation				<u>\$ 280,566</u>	<u>\$ 280,566</u>	<u>\$ -</u>
Michigan Department of Transportation						
Act 51 Operating Assistance	9/30/2004	STATE	N/A	\$ 1,215,843	\$ 1,215,843	\$ -
Act 51 1999 adjustment				(28,788)	(28,788)	
Project Zero		STATE	\$ 74,388	74,388	74,388	-
Total State Operating Assistance			<u>\$ 74,388</u>	<u>\$ 1,261,443</u>	<u>\$ 1,261,443</u>	<u>\$ -</u>
Total			<u>\$ 74,388</u>	<u>\$ 1,542,009</u>	<u>\$ 1,542,009</u>	<u>\$ -</u>



**Isabella County Transportation Commission**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2004**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major programs:

*CFDA Number(s)*

*Name of Federal Program or Cluster*

20.500

Transportation

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

**Isabella County Transportation Commission**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2004**  
**(continued)**

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**SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS**

There were no findings related to the financial statements, which are required to be reported in accordance with generally accepted government auditing standards for the year ended September 30, 2004.

**SECTION III - FEDERAL AWARD FINDINGS**

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2004.

**Isabella County Transportation Commission  
Summary Schedule of Prior Audit Findings  
September 30, 2004**

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There were no audit findings for the year ended September 30, 2003.

**Isabella County Transportation Commission**  
**Schedule of Operating Revenues**  
**Year Ended September 30, 2004**

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**TRANSPORTATION REVENUE**

Farebox revenues	\$ 238,949
Contract	145,162
Advertising (Bus boards)	<u>5,770</u>

Total Transportation Revenue	<u>389,881</u>
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**NON-TRANSPORTATION REVENUE**

Insurance reimbursement	10,808
Maintenance services	6,989
CDL fees	59,321
Miscellaneous	<u>44,506</u>

Total Nontransportation Revenues	<u>121,624</u>
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Total operating revenues	<u><u>\$ 511,505</u></u>
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**Isabella County Transportation Commission**  
**Schedule of Nonoperating Revenues**  
**Year Ended September 30, 2004**

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LOCAL OPERATING ASSISTANCE

Property tax revenue	\$ 716,278
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STATE OF MICHIGAN OPERATING ASSISTANCE

Formula Operating Assistance (Act 51) current year circulation	1,138,506
Operating Assistance 1999 adjustment	(28,788)
Project Zero grant	74,388

Total State of Michigan Operating Assistance	1,184,106
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FEDERAL OPERATING ASSISTANCE

F.T.A. Operating Assistance - Section 5311 current year	276,778
RTAP training funds	3,788

Total Federal Operating Assistance	280,566
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OTHER

Interest income	40,623
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Total Non-Operating Revenue	<u>\$ 2,221,573</u>
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**Isabella County Transportation Commission**  
**Schedule of Expenses by Contract**  
**Year Ended September 30, 2004**

	Rural Transit Assistance Program Training Funds	Operations	Total
Labor	\$ -	\$ 1,233,034	\$ 1,233,034
Fringe benefits	-	776,920	776,920
Payroll related expenses	-	108,066	108,066
Services	-	54,798	54,798
Materials and supplies consumed	-	220,274	220,274
Utilities	-	56,305	56,305
Taxes abated and written off	-	2,130	2,130
Casualty and liability insurance	-	130,741	130,741
Miscellaneous expenses	-	22,087	22,087
Interest expense	-	33,370	33,370
Advertising and promotion	-	7,401	7,401
Travel and meetings	-	5,825	5,825
Dues and subscriptions	-	4,077	4,077
Leases and rentals	-	5,387	5,387
Other grant expense	3,788	-	3,788
Depreciation	-	556,257	556,257
<b>Total Expenses</b>	<b>3,788</b>	<b>3,216,672</b>	<b>3,220,460</b>
Less: ineligible expenses			
Depreciation	-	432,659	432,659
Grants	3,788	-	3,788
Taxes abated and written off	-	2,130	2,130
Ineligible expenses associated with non-transportation	-	52,374	52,374
Miscellaneous ineligible	-	173	173
Interest expense	-	33,370	33,370
<b>Total Ineligible Expenses</b>	<b>3,788</b>	<b>520,706</b>	<b>524,494</b>
<b>Total Eligible Expenses</b>	<b>\$ -</b>	<b>\$ 2,695,966</b>	<b>\$ 2,695,966</b>

**Isabella County Transportation Commission**  
**Schedule of Operating Expenses**  
**Year Ended September 30, 2004**

	<u>Operations</u>	<u>Maintenance</u>	<u>Administration</u>	<u>Total</u>
Labor				
Operators' salaries and wages	\$ 705,001	\$ -	\$ -	\$ 705,001
Other salaries and wages	243,517	121,599	162,917	528,033
Fringe benefits	625,335	74,822	76,763	776,920
Payroll related expenses	85,095	10,250	12,721	108,066
Services				
Contract services	20,608	5,453	2,445	28,506
Professional and technical	-	2,500	11,479	13,979
Other services	4,575	417	7,321	12,313
Materials and supplies consumed				
Fuel and lubricants	120,710	23	-	120,733
Tires and tubes	8,688	-	-	8,688
Other materials and supplies	52,914	23,807	14,132	90,853
Utilities	-	-	56,305	56,305
Casualty and liability insurance				
Premium for public liability	130,741	-	-	130,741
Taxes				
Abated and written off	-	-	2,130	2,130
Miscellaneous expenses				
Advertising and promotion	-	-	7,401	7,401
Travel and meetings	470	183	5,172	5,825
Other miscellaneous expenses	10,331	2,516	13,028	25,875
Leases and rentals	4,909	371	107	5,387
Dues and subscriptions	-	-	4,077	4,077
Depreciation	<u>445,868</u>	<u>23,884</u>	<u>86,505</u>	<u>556,257</u>
Total operating expenses	<u>\$ 2,458,762</u>	<u>\$ 265,825</u>	<u>\$ 462,503</u>	<u>\$ 3,187,090</u>

**Isabella County Transportation Commission**  
**Schedule of Net Eligible Cost Computations of General Operations**  
**Year Ended September 30, 2004**

	<u>General Operations</u>
Expenses	
Labor	\$ 1,233,034
Fringe benefits	776,920
Payroll related expenses	108,066
Services	54,798
Materials and supplies consumed	220,274
Utilities	56,305
Taxes abated	2,130
Casualty and liability insurance	130,741
Miscellaneous expenses	22,087
Interest expense	33,370
Leases and rentals	5,387
Travel and meetings	5,825
Dues and subscriptions	4,077
Advertising	7,401
Other grant expenses	3,788
Depreciation	556,257
Total expenses	<u>3,220,460</u>
Less ineligible expenses	
Depreciation	432,659
Grants	3,788
Taxes abated and written off	2,130
Ineligible expenses associated with non-transportation	52,374
Miscellaneous ineligible	173
Interest expense	33,370
Total ineligible expenses	<u>524,494</u>
Net eligible expenses	<u><u>\$ 2,695,966</u></u>
<b>FEDERAL SECTION 18 REIMBURSEMENT</b>	
10.95% of net eligible expenses	\$ 295,208
Amount received for the above expenses	263,268
Amount due from (to) federal government	<u><u>\$ 31,940</u></u>
<b>STATE STATUTORY OPERATING ASSISTANCE</b>	
42.23% of net eligible expenses	\$ 1,138,506
Amount received for the above expenses	1,215,843
Amount due from (to) federal government	<u><u>\$ (77,337)</u></u>



**Isabella County Transportation Commission**  
**Schedule of Non-Operating Expenses**  
**Years Ended September 30, 2004 and 2003**

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	<u>2004</u>	<u>2003</u>
Interest expense	\$ 33,370	\$ 36,907

**Isabella County Transportation Commission**  
**Details of Ineligible Expenses**  
**Year Ended September 30, 2004**

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**DEPRECIATION**

Depreciation on fixed assets purchased with State and Federal funds is ineligible for both Federal and State operating assistance

**NONCAPITALIZED CAPITAL GRANTS**

The amount of capital funds, which were used for preventive maintenance and/or other operating costs, are subtracted out as an ineligible expense.

**Isabella County Transportation Commission**  
**Schedule of Revenue and Expenses**  
**Budget to Actual**  
**Year Ended September 30, 2004**

	2004		(Over) Under	2003
	Budget	Actual	Budget	Actual
<b>REVENUE</b>				
Farebox revenue	\$ 235,000	\$ 238,949	\$ (3,949)	\$ 232,965
Contract revenue	150,000	145,162	4,838	265,799
Charter revenue - Trolley	-	-	-	5,090
Advertising/Bus boards	8,000	5,770	2,230	5,873
Non-transportation revenue	35,810	44,506	(8,696)	10,348
CDL/GDL revenue	-	3,544	(3,544)	2,448
Property taxes	700,000	716,278	(16,278)	673,465
Single business tax	6,000	-	6,000	6,001
Other miscellaneous revenue	-	6,989	(6,989)	296
State operating assistance	1,278,960	1,109,718	169,242	1,199,987
Federal Section 5311	319,740	276,778	42,962	322,514
Interest income	44,215	40,623	3,592	44,757
Insurance reimbursement	-	10,808	(10,808)	-
RTAP grants	3,000	3,788	(788)	1,429
Project zero	-	74,388	(74,388)	33,117
Capital grants	-	1,190,096	(1,190,096)	78,344
Total revenue	\$ 2,780,725	\$ 3,867,397	\$ (1,086,672)	\$ 2,882,433
<b>EXPENSES</b>				
Operators wages	900,000	705,001	194,999	801,696
Other operational wages	309,000	243,517	65,483	255,688
Maintenance wages	144,000	121,599	22,401	143,172
Administrative wages	168,000	162,917	5,083	155,345
Fringe benefits	600,310	776,920	(176,610)	626,762
Payroll related expenses	118,000	108,066	9,934	109,438
Contract maintenance	27,000	28,506	(1,506)	21,893
Professional and technical services	6,000	13,979	(7,979)	5,300
Other services	12,600	12,313	287	11,423
Fuel and lubricants	140,000	120,733	19,267	125,893
Tires and tubes	25,000	8,688	16,312	18,465
Other material and supplies	102,400	90,853	11,547	163,030
Utilities	60,000	45,900	14,100	47,928
Telephone	10,000	10,405	(405)	8,799
Public liability insurance	140,000	130,741	9,259	226,821
Taxes abated	-	2,130	(2,130)	297
Travel and meetings	5,000	5,825	(825)	4,220
Dues and subscriptions	5,000	4,077	923	4,156
Advertisemet and promotional	8,000	7,401	599	7,461
Interest expense	35,000	33,370	1,630	36,907
Miscellaneous expense	12,690	22,087	(9,397)	51,811
Leases	7,000	5,387	1,613	5,253
Depreciation	399,207	556,257	(157,050)	457,374
Other grant expense	-	3,788	(3,788)	1,465
Total Expenses	3,234,207	3,220,460	13,747	3,290,597
Net income/(loss)	\$ (453,482)	\$ 646,937	\$ (1,100,419)	\$ (408,164)

**Isabella County Transportation Commission**  
**Schedule of Mileage Data (Unaudited)**  
**Year Ended September 30, 2004**

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	Public Transportation Mileage
Demand-Response	
First Quarter	204,946
Second Quarter	202,202
Third Quarter	194,578
Fourth Quarter	177,450
	<hr/>
Total Demand-Response	<u>779,176</u>

**Isabella County Transportation Commission**  
**Schedule of Vehicle Hours and Passengers (Unaudited)**  
**Year Ended September 30, 2004**

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	<u>Number of Vehicle Hours</u>	<u>Number of Youth Passenger</u>	<u>Number of Regular Passengers</u>	<u>Number of Senior Passengers</u>	<u>Number of Handicapped Passengers</u>	<u>Total Number of Senior and Handicapped Passengers</u>
Demand-Response	61,162	84,490	90,490	32,973	93,655	126,628



November 30, 2004

Board of Directors  
Isabella County Transportation Commission  
Mt. Pleasant, Michigan

In planning and performing our audit of the financial statements of the Isabella County Transportation Commission for the year ended September 30, 2004, we considered the Organization's internal control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. As a result of the aforementioned study, we became aware of the following matters that are an opportunity for strengthening internal control and operating efficiency. The following summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 30, 2004 on the financial statements of the Isabella County Transportation Commission.

**Current Year Comments and Recommendations:**

**CASH MANAGEMENT**

Management of Isabella County Transportation Commission currently maintains good documentation of cash and cash disbursements. However, the following are comments and suggestions that should be considered to increase internal controls in the cash disbursements and receipts areas.

We recommend that the creator of the accounts payable checks should not be a signator for that bank account. We also recommend that the General Manager open the bank statements every month to review the cleared checks and any transfers before management prepares the monthly bank reconciliations.

We have already discussed these comments with the Organization's management, and we will be pleased to discuss it in further detail at your convenience, to perform any additional research, or to assist you in implementing a course of action to resolve these issues.

Sincerely,

YEO & YEO, P.C.  
CPA's and Business Consultants

By: Thomas E. Coulter  
Thomas E. Coulter, CPA